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PLEASE PASS ASS'T SEC'Y HOLBROOKE OOB MONDAY

E.O. 11652: XGDS-1

TAGS: EFIN, EGEN, FR

SUBJECT: REQUEST FOR PAPERS: BRIEF OUTLINE OF TRADE
PROBLEMS

1. IN RESPONSE TO YOUR REQUEST FOR A PAPER PROVIDING
DETAIL AND ANALYSIS OF JAPAN'S TRADE PROBLEM I SUMMARIZE
BELOW THE SALIENT POINTS IN OUR STANDARD LINE. IN SEPTEL
TO FOLLOW I AM ALSO FORWARDING RELEVANT PORTIONS OF THE
US-JAPAN TRADE STUDY IN CASE YOU HAVE THE OPPORTUNITY TO
GO INTO THE ISSUE FURTHER.

2. JAPAN'S RECENTLY ANNOUNCED ECONOMIC STIMULUS AND IMPORT
PROMOTION PROGRAM WILL STILL DO LITTLE TO COUNTER ITS BUR-
GEONING CURRENT ACCOUNT SURPLUS OR HELP THOSE COUNTRIES
WITH PAYMENTS PROBLEMS. AT MOST THE IMPORT PROGRAM FOR
EXAMPLE WILL BOOST IMPORTS BY SOME DOLS 400 MILLION NEXT
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YEAR AND SOMEWHAT LESS THAN DOLS 1 BILLION THROUGH 1980.
MOST OF THE BENEFITS WILL ACCRUE TO THE UNITED STATES
THROUGH INCREASED SHIPMENTS OF AIRCRAFT, AGRICULTURAL PRO-
DUCTS, AND ENRICHED URANIUM. EVEN WITH THIS PROGRAM WE
EXPECT JAPAN'S CURRENT ACCOUNT SURPLUS WILL TOP DOLS 8
BILLION IN 1978. AND DESPITE THE PROSPECTIVE U.S. EXPORT
GAINS, WE EXPECT THE JAPANESE BILATERAL SURPLUS WITH US

WILL GROW BY DOLS 1-2 BILLION IN 1978 TO A LEVEL OF DOLS 9 TO DOLS 10 BILLION.

3. THE U.S. GOVERNMENT FEELS A DEEP SENSE OF URGENCY CONCERNING THE NEED TO REDUCE--INDEED ELIMINATE--JAPAN'S SURPLUS ON CURRENT ACCOUNT. THIS SURPLUS HAS BECOME A "TRIGGER POINT" FOR PROTECTIONIST GROUPS BOTH IN THE UNITED STATES AND IN EUROPE.

4. THE REASONS FOR U.S. AND WORLD CONCERN ARE OBVIOUS:

--WITH THE CONTINUING LARGE OPEC SURPLUS, THE REST OF THE WORLD COLLECTIVELY MUST RUN DEFICITS (ABOUT DOLS 40 BILLION A YEAR).

--IF MAJOR INDUSTRIAL COUNTRIES ALSO RUN SURPLUSES THE REMAINING NATIONS MUST SHARE AN EVEN LARGER DEFICIT.

--THESE DEFICITS INVOLVE ACCUMULATIONS OF DEBT WHICH IN SOME CASES CREATE FINANCING DIFFICULTIES AND IN OTHERS AROUSE PROFOUND POLITICAL PROBLEMS.

--THE TENDENCY IS FOR INDIVIDUAL COUNTRIES TO SEEK TO SHIFT THEIR DEFICITS TO OTHER NATIONS BY EXCESSIVE RESTRAINT OF THEIR DOMESTIC ECONOMIES, OR EVEN WORSE, BY WIDESPREAD IMPORT RESTRICTIONS.

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5. THE U.S. FEELS THAT THE RECENT EASING OF FINANCIAL PRESSURES IN MANY PARTS OF THE WORLD IS DUE IN LARGE PART TO THE FACT THAT THE UNITED STATES HAS UNDERGONE A DOLS 40 BILLION SHIFT IN ITS TRADE BALANCE IN A TWO-YEAR PERIOD AND IS NOW RUNNING A TRADE DEFICIT OF NEARLY DOLS 30 BILLION A YEAR WITH A CURRENT ACCOUNT DEFICIT OF DOLS 16 TO DOLS 20 BILLION A YEAR. THIS CREATES PROBLEMS FOR THE UNITED STATES, BOTH BECAUSE OF ITS SIZE AND BECAUSE IT IS NOT BEING SHARED BY JAPAN AND GERMANY.

6. IF PROTECTIONISM IS TO BE AVOIDED AND AN OPEN TRADE AND PAYMENTS SYSTEM IS TO BE MAINTAINED, THE U.S. GOVERNMENT FEELS THAT IT IS IMPERATIVE THAT THE JAPANESE CURRENT ACCOUNT SURPLUS BE ELIMINATED AT THE EARLIEST POSSIBLE TIME.

7. WE WOULD HOPE THAT JAPAN COULD BRING ABOUT THIS CHANGE IN ITS BALANCE IN LARGE PART BY EXPANDING IMPORTS SO THAT THE LEVEL OF WORLD TRADE MAY RISE, ALTHOUGH SUPPLEMENTAL MEASURES TO INCREASE AID, DISCIPLINE EXPORT GROWTH AND EXPAND EMPLOYMENT-GENERATING INVESTMENT IN THE U.S. AND ELSEWHERE WOULD ALSO HELP.

8. WE HAVE AVOIDED PUBLIC DISCUSSION OF THE EXCHANGE RATE OR OF THE ROLE OF APPRECIATION OF THE YEN IN BRINGING ABOUT A CHANGE IN JAPAN'S CURRENT ACCOUNT BALANCE. THE JAPANESE AUTHORITIES HAVE MISINTERPRETED RECENT STATEMENTS BY U.S. OFFICIALS AS A DELIBERATE ATTEMPT TO INDUCE OR FORCE MOVEMENT IN THE YEN RATE ON THE FOREIGN EXCHANGE MARKETS. THEY ARE THUS EXTREMELY SENSITIVE ON THE EXCHANGE RATE ISSUE.

9. IF ASKED TO COMMENT ON EXCHANGE RATE ISSUE, OUR STANDARD LINE HAS BEEN THAT THE CARTER ADMINISTRATION BELIEVES THAT ITS INTERESTS LIE IN A STRONG DOLLAR REFLECTING A STRONG, HEALTHY, NON-INFLATIONARY DOMESTIC ECONOMY. IT IS CONFIDENTIAL

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NOT SEEKING DEPRECIATION OF THE DOLLAR AS A SOLUTION TO THE U.S. PAYMENTS PROBLEM. THE ADMINISTRATION CONTINUES TO HOLD TO THE VIEW THAT EXCHANGE RATES SHOULD BE ALLOWED TO REFLECT UNDERLYING CONDITIONS IN NATIONAL ECONOMIES.

10. IN ANY DISCUSSIONS ABOUT THE JAPANESE TRADE BALANCE, WE HAVE MADE CLEAR THAT OUR CONCERN IS WITH JAPAN'S GLOBAL BALANCE, NOT MERELY WITH THE BILATERAL BALANCE WITH THE UNITED STATES. HOWEVER, THE SIZE OF JAPAN'S SURPLUS, WHEN JUXTAPOSED AGAINST THE DEFICITS IN OUR TRADE AND PAYMENTS ACCOUNTS, INEVITABLY FUELS PROTECTIONIST PRESSURES IN THE U.S. VANCE

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